



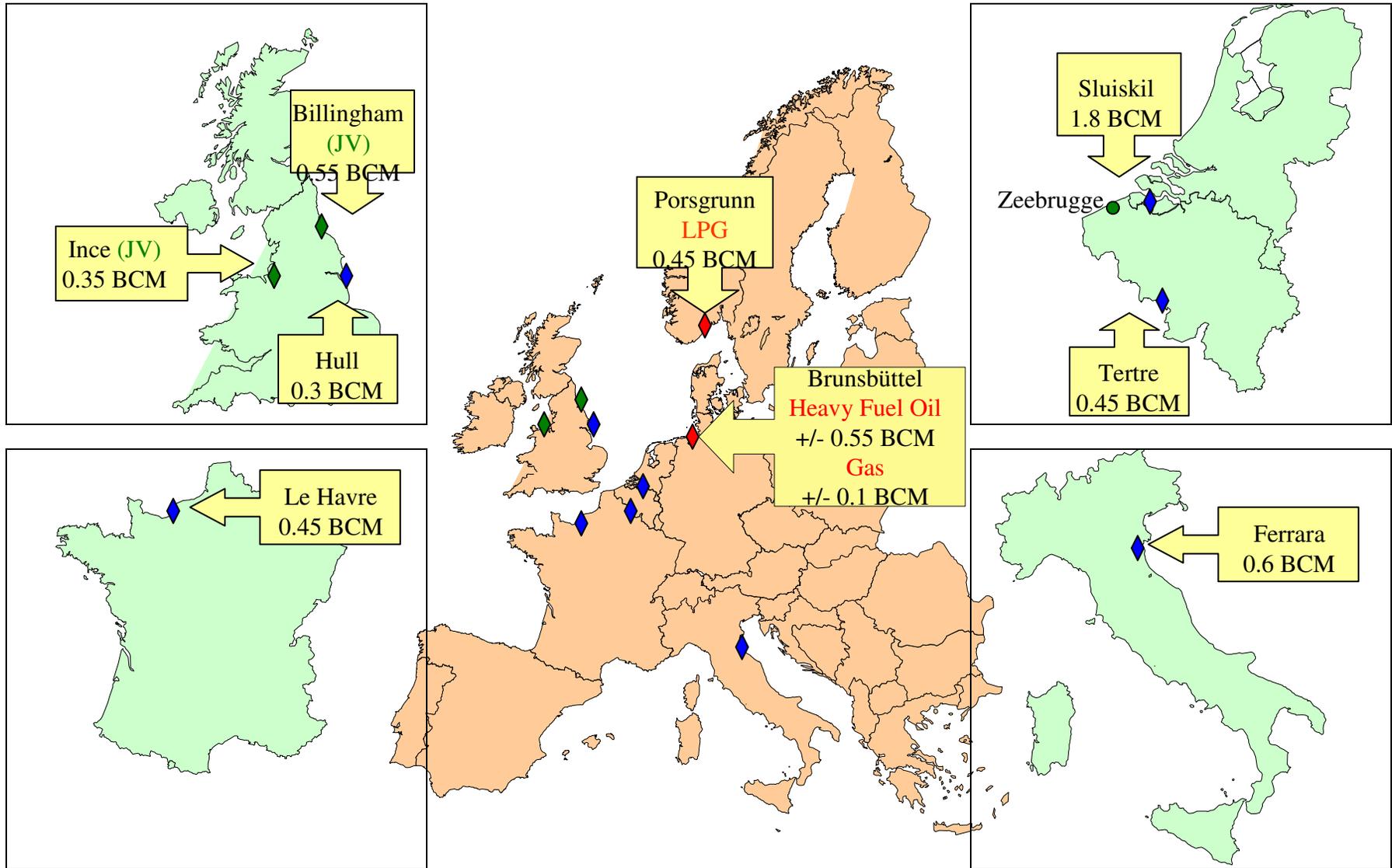
Knowledge grows

GAS BALANCING – THE VIEW OF A LARGE INDUSTRIAL GAS CONSUMER

Steinar Solheim

Vice President and Head of Energy Sourcing,
Yara International

Yara Ammonia Production Sites in Europe



DIVISION OF TASKS BETWEEN TSO'S AND NETWORK USERS

- Yara supports the idea of network users being the main responsible for balancing, but it requires:
 - Reliable, real-time information from TSO's published on an aggregated level and through easy accessible web-portals
 - A liquid intraday market
- TSO is responsible for residual balancing
- Main concern: At present, only a limited number of balancing zones are properly liquid intraday markets. Interim periods are necessary within this context.

HARMONISATION OF BALANCING PERIODS

- Harmonisation of balancing periods are necessary for the further liberalisation of the EU gas market
 - Deviations should only be accepted in exceptional cases and approved by the Commission
- Yara's recommendation on preferred balancing period:
 - Cumulative system perceived as the preferred balancing option
 - No penalties imposed on the network user unless the system is not balanced and the TSO has to engage in balancing activities
 - In line with the principle that imbalance charges shall reflect real costs imposed on the TSO
 - Hourly balancing
 - Favours consumers with a flat profile throughout the day
 - Daily balancing
 - Free-ride for consumers with a variable profile throughout the day

IMBALANCE CHARGES

- Yara supports strongly that imbalance charges should be cost reflective
- The reference should be the price of gas on the wholesale market
 - Marginal price should only be applied in markets with very high liquidity
 - In markets with less liquidity, the average price should be the reference
- What if the wholesale market is not liquid?
 - We do not support the idea that long-term gas prices should be used as reference
 - The better alternative will be the "cost proxy" approach - a basket of prices in different wholesale markets

GENERAL COMMENTS

- The target should be to obtain one Pan European Balancing System.
- We realise that this is not realistic yet, but our concern is:
 - The European gas market will remain more fragmented than necessary
 - Strong players have an interest of status quo or only minor adjustments
 - National Regulators and TSO's will claim that characteristics in their market are so different from other Member States that long interim periods are necessary, risking numerous deviations from the intentions in the 3rd Energy Package
 - The liberalisation process is not going fast enough. The consumers end up paying a higher price compared with a fully liberalised European gas market